Directorate of Intelligence

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Jordan: Coping With Slower Economic Growth

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An Intelligence Assessment

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Jordan: Coping With Slower Economic Growth [redacted]

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An Intelligence Assessment

This paper was prepared by [redacted] Office of Near East–South Asia Analysis. Comments and queries are welcome and may be directed to the Chief, Arab-Israeli Division, NESA, on [redacted]

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This paper was coordinated with the Directorate of Operations and the National Intelligence Council. [redacted]

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Jordan: Coping With Slower Economic Growth

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Key Judgments

Information available as of 28 March 1983 was used in this report.

The economic boom that has contributed significantly to Jordan's internal stability since the mid-1970s is ending. The key factors that Amman has counted on to sustain strong GNP gains probably will show little growth or decline over the next several years as:
- Worker remittances level off because of the slowdown in the Gulf economies.
- Phosphate and potash markets remain soft.
- Arab assistance declines further in light of Iraq's financial problems and the impact of the soft oil market.

The resulting foreign exchange shortfalls will prevent Jordan from meeting its development goals. The rate of economic growth probably will slip to just half the levels of the late 1970s.

Jordan's dependence on external aid will reinforce the King's reluctance to take foreign policy measures—such as peace negotiations with Israel—not supported by Saudi Arabia and his other financial backers. In the event that Arab financial and political support to Jordan drops sharply, international bankers would be unlikely to finance the entire shortfall. Amman would then be forced to make very heavy and unpopular cuts in consumption, investment, and imports.

If negotiations over the West Bank were opened, Hussein would probably bow to longstanding East Bank jealousies of the Palestinians and avoid arrangements that would impose economic burdens on the East Bank—such as agreeing to support West Bank industrial development.

Hussein regards financial support as a sign of political support, and if he joins the US peace initiative, he will expect a major increase in US economic assistance.

Hussein's desire for domestic harmony and lack of interest in economic matters will make him reluctant to incur the immediate political costs of imposing painful cuts in consumption by devaluing, cutting subsidies, or restricting imports of consumer goods in order to conserve foreign exchange. Instead, we believe he will curtail planned investment spending, thereby aggravating Jordan's long-term dependence on external aid, and try to increase borrowing from Western commercial banks.

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The economic boom and wave of labor migration to the Arab Gulf states shortly after Jordan's civil war in 1970-71 have helped the King maintain one-man rule over Jordan by diverting the energies of potential political opponents, especially Jordan's large Palestinian population. The decade-long boom, however, has also generated popular expectations of continued prosperity that are bound to be disappointed in the coming years. Nonetheless, we believe that Jordanians consider economic and educational opportunities to be allocated in a reasonably equitable fashion. As long as this belief holds, socially and economically deprived Jordanians are unlikely to risk the political stability they have enjoyed since 1970 for an improvement in their economic standing.

The government's budget and economic policies will increasingly become the battleground for various interest groups seeking to protect themselves from hard times. Hussein would probably allow an increase in the scope of public debate over economic policy alternatives so long as the central government's monopoly on power is not questioned.

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Jordan: Coping With Slower Economic Growth

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By the standards of most oil-poor Third World economies, Jordan has made remarkable economic progress in the last decade. The development problems facing Jordan since the oil price explosion of 1973/74—allocating scarce domestic labor and finding uses for plentiful and cheap capital—have been just the reverse of the usual constraints faced by less developed countries (LDCs). Fueled by the inflow of funds from the oil-rich Arab Gulf states, real GNP has risen almost 13 percent annually since 1974, and per capita income has reached over $1,400—well above the world median (see figure 1).[1] Meanwhile, Jordan's civilian debt service ratio has been kept at roughly 5 percent, far below the 25 percent or more common to non-OPEC LDCs.

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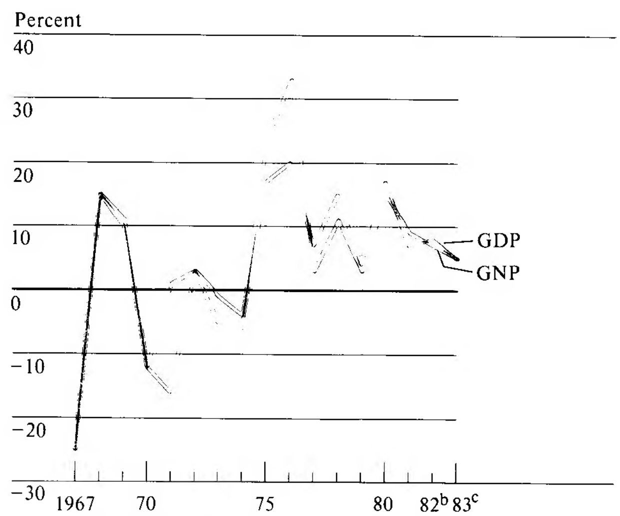
This strong economic performance contrasts sharply with the period following the 1967 Arab-Israeli war when problems associated with the influx of West Bank refugees and terrorist Palestinian activities put the economy in a tailspin. Expulsion of radical Palestinian groups from the country in 1971 and the drafting of a new development plan that called for substantial expansion of both government economic programs and private-sector activity set the stage for economic expansion.

Funding for the economic surge has flowed from Hussein's ability to supply labor to his oil-rich Gulf neighbors and to tap Arab funds as a byproduct of Jordan's role as a key participant in the Arab-Israeli dispute. Since the resurgence in oil prices in 1973/74, the large pool of unemployed Jordanian labor has disappeared as newly rich Gulf Arab oil producers scrambled to hire Jordanians to man major domestic development programs. Between 1973 and 1980 roughly 250,000 Jordanians departed to seek their fortunes in the Gulf. Remittances from these migrants probably exceeded $1 billion in 1982, by far Jordan's largest source of foreign exchange earnings (see figure 2).

[1] Unless otherwise noted, statistics quoted in this paper are derived from official Jordanian publications.

Figure 1
Jordan: Real Growth Rates of GNP and GDP[a]



[a] In 1967 and 1968 estimates include West Bank.
[b] Estimated.
[c] Projected.

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The Jordanian work force is highly skilled and among the best educated in the Gulf. Seventy percent of Jordan's adults are literate—more than double the 1960 ratio and more than any other Arab country except Lebanon. Jordanian and Palestinian workers hold a disproportionate share of the white-collar jobs available to foreign workers in the Gulf states. Jordan benefits heavily from the success of Palestinian workers. Many of them bank their earnings on the East Bank because there are no Arab banking institutions on the West Bank.

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Jordanian Overland Export Routes

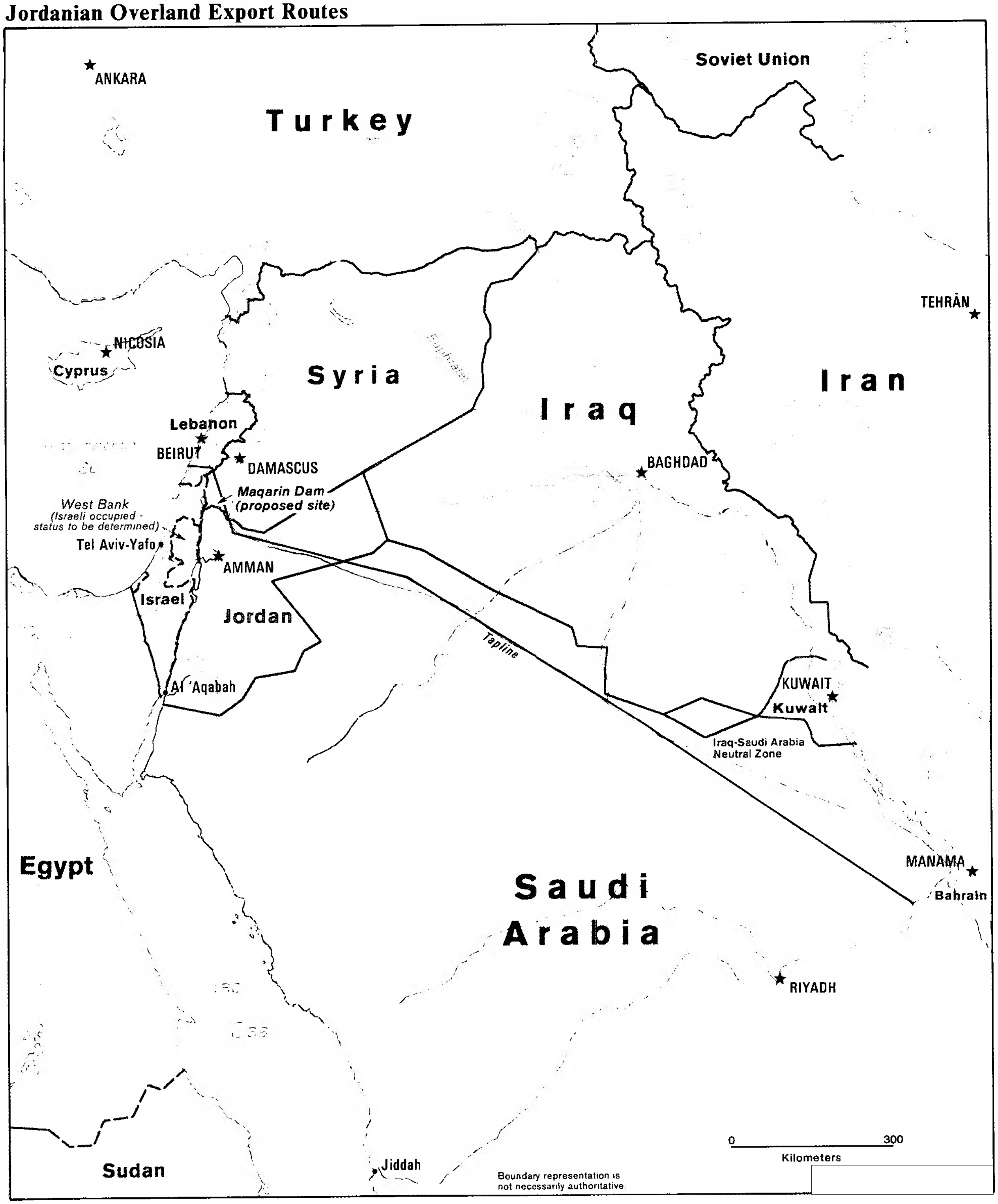

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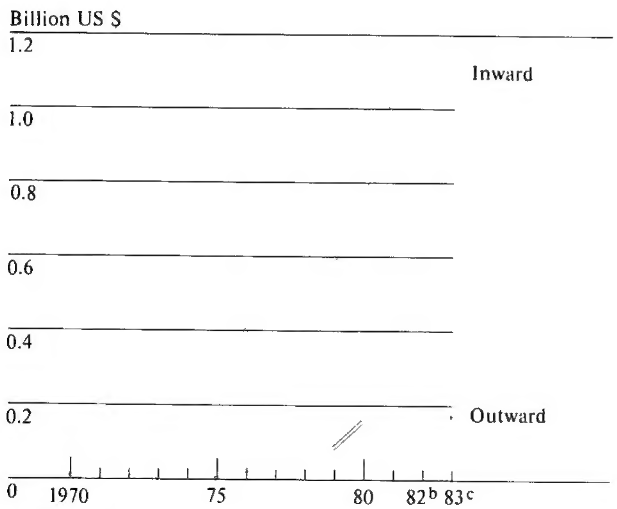
Figure 2
Jordan: Worker Remittances[a]



[a] According to official statistics, which understate the true magnitudes; the US Embassy, for example, estimates the true 1981 figure for inward remittances at $1.3 billion.
[b] Estimated. [c] Projected.

[redacted]

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Table 1
Jordan: Prospects for Baghdad Aid in 1983

Million US $

Donor	Annual Commitment	Status
Saudi Arabia	357.14	Likely to pay
Kuwait	196.43	Likely to pay
Libya	196.43	Defaulted
Iraq	185.71	Defaulted
United Arab Emirates	142.86	Slow payer
Algeria	89.29	Defaulted
Qatar	82.14	Slow payer
Total commitments:	1,250	
Maximum 1983 receipts:	780	

[redacted] 25X1

In response to the Camp David accords, an Arab League summit convened in Baghdad in November 1978 and voted to grant Jordan $1.25 billion annually for 10 years to support its role as a frontline confrontation state against Israel (see table 1). This aid covered virtually all of Jordan's 1981 current account deficit (excluding official transfers) of $1.3 billion. The Baghdad agreement superseded similar, but less generous, Arab summit aid commitments of $324 million reached at Rabat in the wake of the 1973 October War. [redacted]

In return for King Hussein's strong support for Iraq in the Iran-Iraq war, President Saddam Husayn of Iraq has given Jordan aid over and above Iraq's Baghdad commitment of $186 million. Jordanian businessmen also have made large profits by acting as middlemen for Iraqi importers. [redacted]

The pull of these outside forces on Jordan's economy has been so strong in recent years that one Jordanian entrepreneur declared in a newspaper interview that it would have been nearly impossible for Jordanian businesses not to make money. In 1981 over 70 percent of GNP was derived from exports of goods and services—two-thirds of these went to Arab countries. [redacted] 25X1

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Constraints to Development

Jordan's lack of natural resources, small population, and limited access to transport routes hinders manufacturing and agricultural development. Water scarcity is a major constraint on both agricultural output and improvement in living standards. Most of Jordan's territory consists of desert too remote from water sources to be irrigated economically. Net food imports accounted for two-thirds of total food consumption in 1981 and cost over $370 million—one-fourth of the current account deficit. Water for household use is also limited. Even in the capital city of Amman some areas receive piped water only once a week. [redacted] 25X1 25X1

Jordan, with no proved reserves of oil or coal, is almost totally dependent for fuel on oil imported via a Saudi Arabian pipeline. Oil payments absorbed about 12 percent of GNP in 1981. Although large oil shale reserves exist, they are not economically exploitable at current or projected oil prices. Even if oil prices rise, current techniques of processing the shale would require large amounts of scarce water. [redacted] 25X1 25X1

Most raw materials for manufacturing or other industrial activity must be imported. Commercially exploitable mineral deposits are limited to phosphate and potash. No commercially exploitable deposits of such key industrial ores as iron or copper are known to exist.

Jordan has access to few natural trade routes and has cut itself off from the most convenient one—transit through Israel. Before 1948 Jordan held a peripheral place in a regional economy centered in Palestine. It exported crafts and some agricultural products westward either for consumption or reexport via Palestine's ports in exchange for manufactured goods. Since 1948 Jordan has shut itself off from both Israeli markets and transport routes by adhering to the Arab boycott of Israel.

Jordanian goods traveling to western markets by sea must be shipped through Jordan's sole port of Aqaba on the Red Sea, adding one to two days to the time needed to ship goods via Israel. Exports going overland to Baghdad or Jidda—the nearest big Persian Gulf markets—must travel 280 and 500 kilometers (km), respectively, mostly through desert terrain.

Jordan's small population—2.3 million inhabitants in 1982—makes economies of scale difficult to achieve in manufacturing. Many local manufacturers must produce at inefficiently low levels unless export markets are available. Otherwise, they require tariff protection to compete with larger foreign manufacturers who have lower per unit costs. This is particularly true for industries such as cement manufacturing, which Amman has counted on for strong growth.

As a result, Jordan's real GNP growth rates of 13 percent annually over the past decade have resulted chiefly from inflows of funds from Jordanians working in the Persian Gulf. Worker remittances accounted for more than one-fourth of the total increase in GNP, and its share of GNP at factor cost increased from 4 percent in 1972 to over 20 percent in 1981 (see figure 3). Growth of all services generated two-thirds of the increase in GNP between 1972 and 1981. Manufacturing growth, in contrast, accounted for just 11 percent of the increment to GNP.

Development Strategy

The current 1981-85 Five-Year Development Plan is the best indicator of where Jordan's planning-conscious government hopes to take the economy. Its principal aim is achieving real GDP growth of 11 percent annually. This would be accomplished by stepping up the growth of mining and manufacturing and reducing the economy's reliance on services. This, in turn, would cut the trade deficit to just under one-half of GDP, lessening the government's need for foreign aid.

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The central government encourages the growth of free enterprise, and all of Jordan's five-year development plans have relied heavily on private-sector initiatives. Amman, however, controls a few industries that it considers related to national security, such as oil refining, or that require investments too large for the private sector to finance, such as phosphate mining.

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The current plan calls for investing about $11 billion over five years; two-thirds is to come from the public sector. Of the government's total 1981-85 income, domestic revenues—mainly taxes—are slated to contribute just under half. Domestic taxes are largely derived from customs receipts and would suffer disproportionately from any cutback in imports. The remaining $5.5 billion is to be derived from foreign borrowing and government-to-government grants.

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The plan calls for over $2.5 billion to be invested in mining and manufacturing by 1985—nearly one-fourth of total scheduled investment (see figure 4). They are the only sectors slated for faster growth under the current plan than was achieved in 1976-80 and are targeted for nearly 18-percent annual growth (see figure 5).

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Amman had hoped banks in Jordan would provide the funds for investment, but they have proved reluctant to finance major industrial expansion projects, preferring instead to make shorter term, less risky loans to finance trade. In 1981, for example, commercial bank credit to manufacturing and mining totaled just 12 percent of total outstanding loans.

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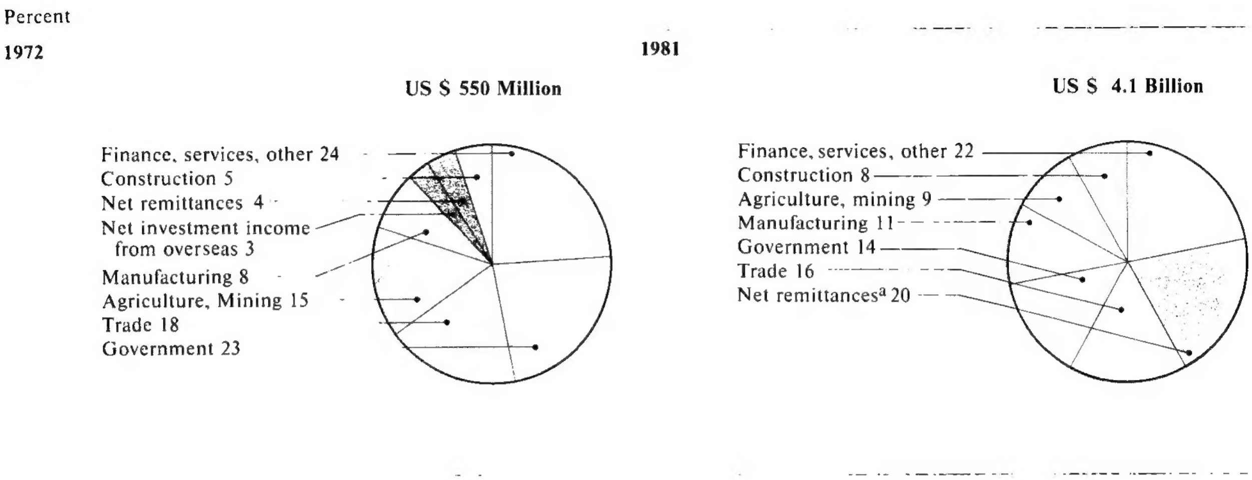
Figure 3
Jordan: Origin of GNP at Factor Cost



[a] Includes net investment income form overseas, which was a negative number in 1981.

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Amman has embarked on an effort to gain majority Jordanian ownership of foreign-controlled banks to encourage private-sector financing of new industrial ventures. It hopes that the new Jordanian stockholders—including some government entities—will be more responsive to the central government's desire to redirect capital toward these industries.

In a first step to improve resource allocation and slow the growth in oil costs, Amman has planned substantial cuts in fuel subsidies. Jordan's energy consumption between 1976 and 1980 grew at an annual rate of over 16 percent, and a senior Jordanian official recently named rising energy consumption as one of Jordan's two top development concerns. The cost of imported oil—for which Saudi Arabia until recently had been charging $34 per barrel—now exceeds the total value of Jordan's commodity exports. The plan ambitiously calls for a decline in oil imports to just over one-third of commodity exports by 1985 by both developing alternative sources and making more efficient use of imported oil. Exploration for and feasibility studies of oil shale reserves are slated to continue, although any payoffs from these are far in the future.

Progress to Date

The first two years of the plan have produced mixed results. GDP probably grew just over 7 percent annually, while GNP growth was slightly higher. The planned shift away from services did not materialize. 25X1

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In 1981 commodity-producing sectors fell far short of targets—agricultural output actually fell about 4 percent because of lack of rain. Although growth in government services came to a near halt, private-sector services and trade—boosted by war-related demand in Iraq—continued to expand. The share of output devoted to investment was roughly on target, but consumption and exports fell far short. The current account deficit was below the expected level. Remittance inflows grew at nearly double the expected rate. 25X1

In 1982, however, the virtual stagnation of remittances due to expatriate fears about regional security in the wake of the war in Lebanon and falling

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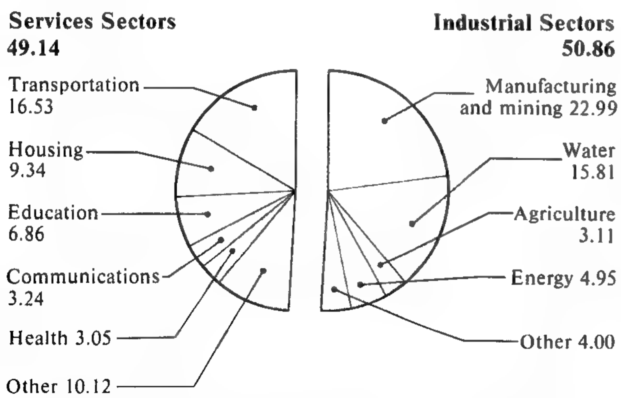
Figure 4
Jordan: Planned Investment, 1981-85

Percent



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commodity prices combined to produce an estimated record $1.5 billion current account deficit (see table 2). Jordan's ability to sustain such a large deficit depends heavily on Arab aid. Jordan is unusual among LDCs in that it has had to borrow only about 1 percent of its capital needs. Nearly all of the deficit in 1981 was covered by $1.3 billion in cash gifts, mostly from other Arab countries. In contrast, most nonoil LDCs were forced to meet about 75 percent of their capital needs by borrowing (see figure 6).

Social Impact of Development

The King has reaped substantial political benefits from Jordan's headlong rush for material comfort after the civil war in 1970 between Palestinians and East Bankers. The dividends of tranquility have made Jordanians appreciate the benefits of political stability and reluctant to challenge the King's one-man rule. As the US Embassy has observed:

> *The Gulf has provided an essential and unimaginably rewarding outlet for a large group of people—mostly Palestinians—capable of expending their otherwise unchanneled energy and emotion in antiregime activities. So far, potential troublemakers have been successfully co-opted by personal prosperity—or the promise of prosperity—and in the interests of its continuation would not support political activities dangerous to their new stability.*

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The key to landing a lucrative job in the Gulf has been a good education, and the King has ensured that elementary and secondary education are widely available. In the 1980/81 school year, over three-fourths of the school-age population was enrolled in formal education. University admission and students' subsequent careers are largely determined by their performance on the *tawjihi*—the high school graduation test that also serves as a national entrance examination. The most economically rewarding fields, such as medicine and engineering, are open only to students who score well. Students eager to secure a lucrative career avoid political activism and devote their energies to studying.

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Not all Jordanians have reaped the benefits of prosperity. Jordan's unfettered economic climate has led to increasing income disparities. The comparatively egalitarian, bedouin society of the 1960s has been swept aside. Today, about two-thirds of the population lives in the capital. The successful workers in the Gulf have tended to spend their earnings by building large, comfortable homes in West Amman and leading conspicuously luxurious lives.

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The flood of remittance money into housing touched off a speculative boom in Amman land prices in the late 1970s. It has become commonplace to talk of the "two Ammans"—prosperous, remittance-built West Amman living cheek-by-jowl with shabby, rundown East Amman. Embassy reporting indicates the increasing gap between the rich and the poor has not yet occasioned significant grumbling. Those at the bottom of the economic heap view the improving lot of those above them as a guarantee that someday they, too, will strike it rich.

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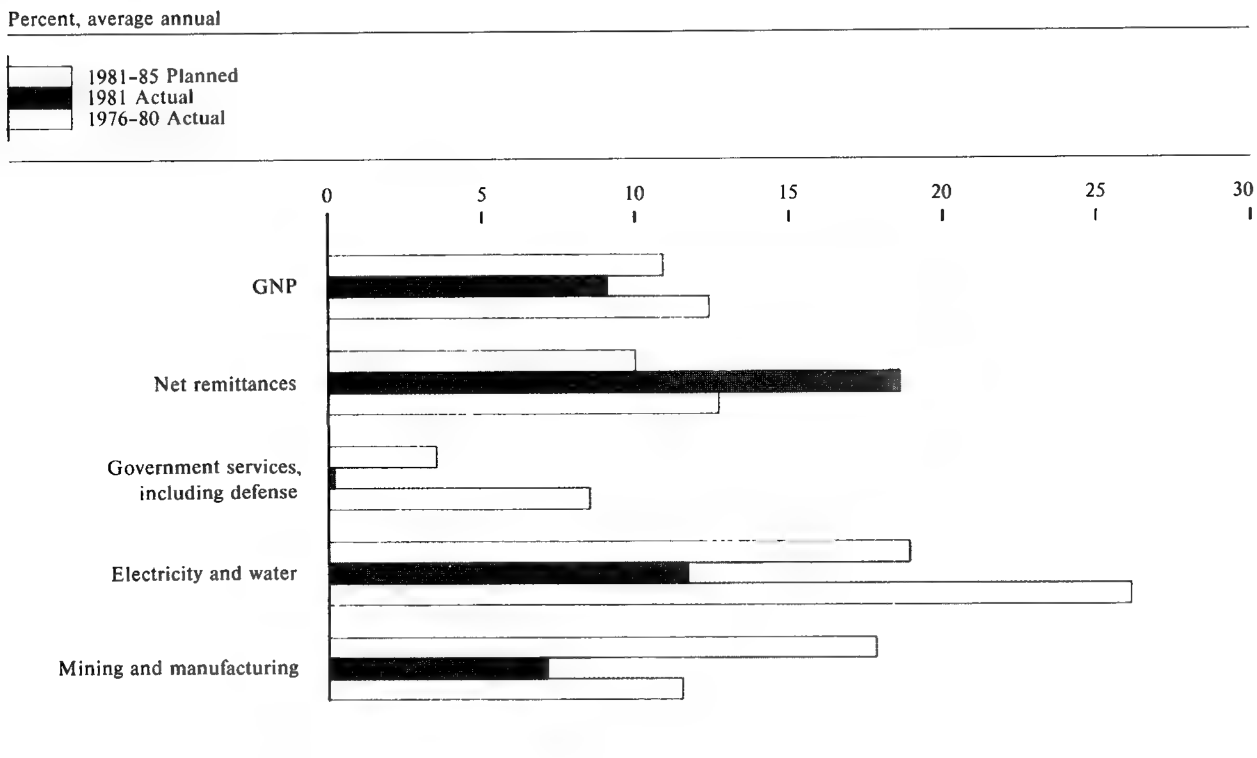
Figure 5
Jordan: Planned Growth Rates by Sector



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The economic prosperity of the 1970s also expanded the role of women in Jordanian society. Female participation rates in the labor force, while still low by Western standards, have risen from 5 percent in the 1960s to approximately 17 percent today. Inflation averaging about 12 percent during the latter half of the 1970s and the scarcity of male workers after 1973 prompted many middle class women to seek employment outside the home. Jordanian women are now offered primary and secondary educational opportunities comparable to those of men, though they are usually restricted to attending local universities instead of emulating their male counterparts, who go abroad.

By diverting political energies to material pursuits, the boom has eased some of the tensions between native East Bankers and the Palestinian majority in the wake of the civil war, but it has aggravated others. Embassy reporting indicates that the conspicuous consumption of the wealthy Palestinians fuels the resentment of those East Bankers who remain impoverished and believe that the Palestinians have taken over Jordan. Conversely, many still poor West Bankers point to the wealth of some native Jordanians as proof that Palestinians are discriminated against.

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Table 2
Jordan: Balance of Payments

Million US $

	1967	1973	1976	1981	1982[a]	1983[b]	1985[c]
Trade balance	−120	−271	−813	−2,464	−2,556	−2,640	−2,723
Exports	32	58	207	744	824	860	1,828
Imports	152	329	1,020	3,208	3,380	3,500	4,551
Services balance	42	70	508	1,103	1,050	1,100	1,480
Net worker remittances	18	45	390	888	920	920	1,057
Tourism	4	2	111	182	97	150	[d]
Other	20	23	7	33	30	30	423
Private transfers	7	11	11	47	30	50	[d]
Current account balance	−71	−190	−294	−1,314	−1,476	−1,490	−1,243
Capital account balance	134	196	271	1,431	1,389	1,270	1,243
Official transfers	144	187	370	1,273	994	820	838
Other	−10	9	−99	158	395	450	405
Errors and omissions	14	7	5	−173	−116	140	0
Changes in reserves	77	13	−18	−56	−203	−80	0

[a] Estimated.
[b] Projected.
[c] Projected by 1981-85 development plan.
[d] Not specified.

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Plan Shortcomings

Several key issues are not adequately addressed in the 1981-85 plan. These include water scarcity, a rapidly growing population, and strict price controls that preclude the most efficient use of Jordan's resources.

Insufficient water is the most important. There is a large, suppressed demand for water in virtually all of northern Jordan and in particular in the Amman area—where the bulk of the population lives. Since the authorities have been unwilling to raise the price of water, they have been forced to ration it in some areas. One US study concludes that within the next 15 years population and economic growth will push estimated demand for water one-third beyond available supplies.

Jordan's main hope for meeting this extra demand at a reasonable cost is to build a major new dam on the Yarmuk River, known as the Maqarin Dam. Construction of the dam, however, has long been stalled. Israel and Syria each assert veto power over the project because it would affect their riparian rights. Neither has been willing to approve it, and current political tensions make it unlikely that the Maqarin Dam project will proceed in the foreseeable future. Without the dam Jordan will be forced either to resort to such expensive alternative methods as desalinizing seawater, building a canal from the Euphrates River, or cutting back on the water used for irrigation—in turn cutting food production and aggravating the trade deficit.

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Jordan's population growth rate has been estimated at 3.8 percent annually over the past 10 years—one of the highest in the world. Although the plan pays lipservice to reducing this figure, it proposes no specific measures and none are likely to materialize. About half the population is under 15, and every breadwinner has an average of five mouths to feed. This very high dependency ratio restricts the private sector's ability to save and invest.

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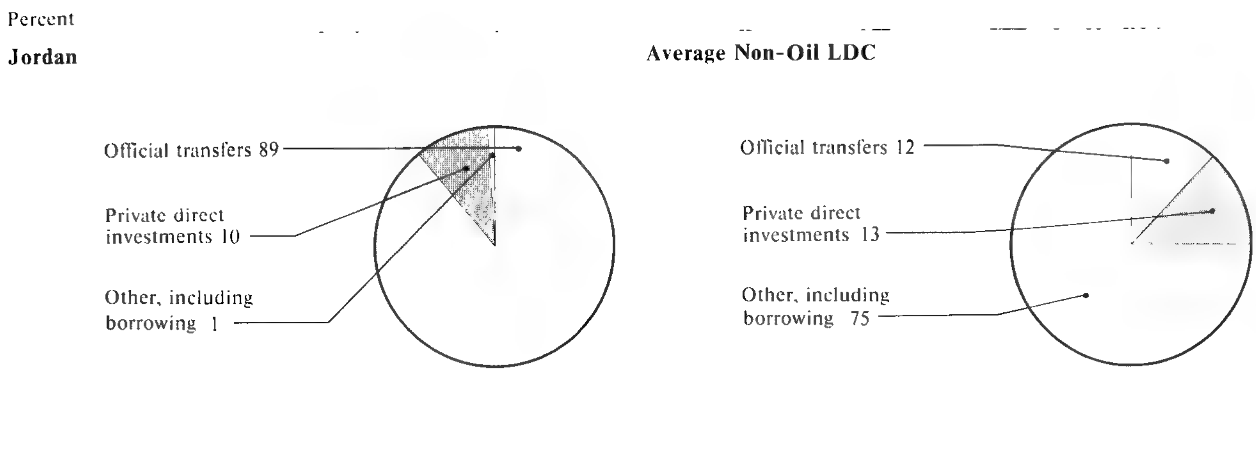
Figure 6
Jordan: Comparison of Capital Accounts, 1981



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Despite Jordan's emphasis on a free market, the five-year plan shows little appreciation for the critical role of prices in efficiently allocating resources. Jordan's Ministry of Supply fixes prices for a wide range of consumer goods. The prices are supposed to be based on actual production costs, but many local businessmen charge that the Ministry ignores these figures and sets prices so low that innovation and competition are discouraged and lower quality goods produced, according to the US Embassy.

Economic Prospects Through 1985

We expect that the external forces that have pulled Jordan's economy ahead for the past decade will grow slowly at best over the next several years:

- The decline in oil prices and concomitant economic slowdown in the Gulf will eventually halt growth in worker remittances and cut demand for Jordanian exports.
- Baghdad donors will slow down aid payments due to their straitened finances.
- Phosphate markets will remain soft.

Unless major new sources of aid materialize, we expect that real GNP growth rates through 1985 will drop to no more than 6 percent annually, about half of the 1975-79 rate. 25X1

At the end of 1982 foreign exchange reserves were sufficient to cover approximately two months of imports of goods and services—just within generally accepted margins of safety. Unless King Hussein 25X1 secures a major non-Arab source of financial aid or implements some domestic austerity measures, Jordan's balance-of-payments position will become increasingly tight. Expected shortfalls in Arab aid have already helped to push government investment plans down by $345 million this year—30 percent below target 25X1

The slowdown in domestic capital formation will tend to cut imports and conserve foreign exchange, though it will also retard Jordan's development efforts and compound the effect on GNP of a drop in export demand and remittances. Payments on Western military debt, however, are rising and will more than offset the decline in capital goods imports. Because the government derives a large share of its domestic income from customs duties, we believe Amman will be reluctant to take strict austerity measures, such as imposing import restrictions, devaluation, or prohibitively high customs duties, since such measures would cut into revenues.

Arab Aid. Of the $1.25 billion in Baghdad aid commitments, we expect that Jordan will receive $780 million this year. Libya and Algeria have usually reneged on their commitments, and Saddam Husayn has informed the King that Iraq's financial crisis will prevent it from paying its share.

We believe that the Saudis and the smaller Gulf states will continue to fulfill their Baghdad commitments, despite falling oil prices. In our judgment, they view the Baghdad subsidies as one of the few remaining expressions of Arab solidarity against Israel and will be reluctant to abandon it at this juncture in Arab-Israeli relations. The United Arab Emirates and Qatar will probably delay writing their checks as long as possible, as they did in 1982, leaving only Saudi Arabia and Kuwait likely to pay on a timely basis.

Jordan's military establishment absorbed about 12 percent of GNP in 1982—an estimated $300 million in foreign exchange for weapons imports and $425 million in local currency for salaries and other expenses. Military costs will jump substantially in 1983.

If a collapse of the oil market or some unforeseen political event blocks Jordan's access to large sums of grant aid, current investment and consumption levels could not be sustained. Jordan has had little difficulty arranging a $225 million Euroloan this year, but we believe Western bankers made skittish by large debt rescheduling in Mexico and other Third World countries in recent years would be highly unlikely to take on the risk of pumping substantial funds into Jordan. Moreover, Jordan's creditworthiness is heavily dependent on bankers' perceptions that the Arab states would bail Amman out in a crisis. There is no prospect over the next three to five years that Jordan would be able to boost export earnings enough to compensate for a large drop in aid. 25X1

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Remittances. Although the plan is counting on net remittances to grow 10 percent annually, we expect that they will grow much more slowly over the next three years. The soft oil market and resulting financial pinch throughout the oil-rich Arab states that were so eager to hire Jordanians in the 1970s have prompted postponements of new projects and efforts to cut back their foreign work forces. Recent oil market developments suggest that the financial problems of the Gulf Arabs will intensify over the next several years and preclude a rebound in remittances. 25X1

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We do not expect that many expatriates will lose their jobs, but the flow of new workers will slow to a trickle. Saudi Arabia, for example, whose foreign labor force grew about 9 percent annually during the boom years of the late 1970s, will cut back its foreign work force, though large-scale deportations are unlikely. Kuwait has already frozen the number of non-Kuwaitis on the public payroll and is attempting to cut the government's foreign labor force by 10 percent. 25X1

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Commodity Exports. We expect phosphate prices, down about 8 percent in 1982, to fall again this year (see figure 7). The US Embassy reports that Jordan is already selling its phosphate at less than the cost of production. Even if the recent upturn in the US economy presages stronger world demand, the market probably will remain soft. Morocco, the world's major exporter of phosphates, is facing balance-of-payments problems and will probably try to boost its production, thereby keeping prices down. The outlook for fertilizer prices is similarly dim. 25X1

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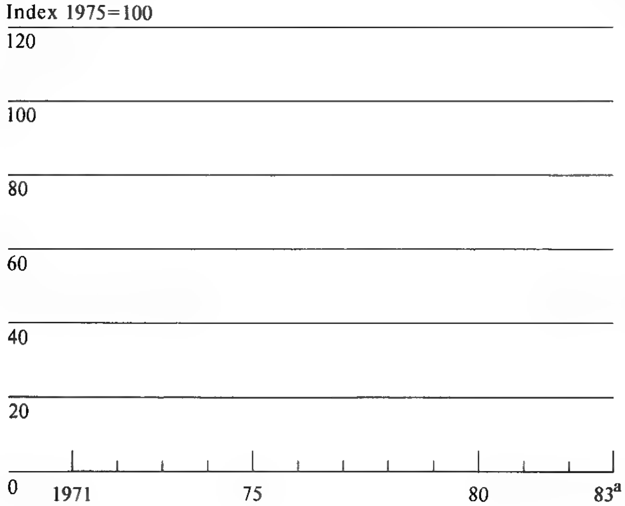
Figure 7
Jordan: Index of Wholesale Phosphate Prices



[a]Projected

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A Return to Unemployment. We believe the drying up of job opportunities in the Gulf, continued rapid population growth, and the domestic slowdown presage the return of domestic unemployment, which virtually disappeared between 1975 and 1981. Large numbers of highly skilled, well-educated young Jordanians now entering the labor force who anticipated finding lucrative jobs in the Gulf states could be in for a rude awakening.

There are signs that the labor market has slackened in recent months, although Amman does not produce timely unemployment statistics. The US Embassy has reported growing local concern over unemployed youth—a complaint virtually unheard of until recently. Army enlistments and juvenile crime, two traditional indicators of youth unemployment, are on the rise. The US Embassy has reported increased grumbling among young people about the number of jobs in Jordan taken by foreigners. So far, the jobless are mainly the unskilled workers undercut by less expensive foreign labor.

We believe that planners' expectations of job creation rates are unrealistically high. The five-year plan projects that the 11-percent target growth rate of GDP will increase the number of jobs inside Jordan by over 7 percent annually, even though domestic employment grew only about 6 percent per year during the boom years of the late 1970s. We believe that our forecast of 6-percent maximum GDP growth for 1983-85 will probably mean a job creation rate of 4 percent or less, while Jordan's domestic labor force will grow roughly 8 percent per year. 25X1

To restrain the growth in domestic unemployment, the Ministry of Labor is beginning to clamp down on the growth of the foreign labor force in Jordan—more than 100,000 strong—by restricting work permits for certain classes of Asian manual workers. Until Jordanians reconcile themselves to lowered wage expectations, however, employers may have a difficult time finding nationals to accept many of the positions now filled by foreigners. If employers resort to increasing wages to induce nationals to take these jobs, rising 25X1 unemployment would be averted at the cost of increasing inflation. 25X1

We believe that Jordan's domestic manufacturers are unlikely to reach efficient levels of production in the next three years by exporting to neighboring markets and that they will continue to require tariff protection. There is little prospect that Jordan would be willing to trade with Israel until a final peace settlement is concluded. Security and political problems make near-term prospects for manufactured exports to Lebanon dim. The Saudis are primarily a market for luxury consumer goods and heavy equipment that 25X1 Jordan does not produce. Syria to the north has perennial foreign exchange crises, is at odds with Jordan politically, and is unlikely to expand significantly its imports—except for military equipment—in the foreseeable future. Syria, moreover, has adopted an import substitution strategy and is unlikely to allow Jordan to compete with its own struggling consumer goods and other light industries. Iraq, once a promising market, has severely cut back imports due to its own foreign exchange problems. 25X1

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Political Consequences

The US Embassy has observed that it is widely assumed in Jordan that the government should exist only for the support and comfort of those engaged in the accumulation of personal wealth. The scramble for government assistance by various interest groups seeking influence over the budget is rising as the opportunities to get rich quick by doing business with Iraq or working in the Gulf fade. A US Embassy source reports that the most recent round of budget making provoked much sharper domestic political struggles than usual. In the final budget, investment funds were cut 30 percent below plan, while food subsidies remained intact. A large increase in fuel subsidies was averted only at the last minute. [redacted]

The government's failure to sustain past economic growth levels has prompted rising criticism of the King and demands for more popular participation in and influence over government decisions.[2] The US Embassy reports that Jordan's business community, which views Prime Minister Badran and his Cabinet as strongly antibusiness, is increasingly critical of the government's price control and other economic policies. According to the Embassy, industrial leaders are eager to see more of their number included in the Cabinet. [redacted]

Some businessmen are also beginning to question the wisdom of the King's continued close alliance with Iraq, according to the US Embassy. Hussein has actively encouraged Jordanian companies to do business with Iraq, and Jordanian firms now hold roughly $450 million worth of contracts with Iraq. As Iraq's foreign exchange crisis has intensified, Baghdad has stopped payment on a number of contracts with Jordanian merchants. The criticisms have become so worrisome that the Central Bank has recently announced the formation of a credit facility to bail out overextended Jordanian firms. [redacted]

Many Jordanian businessmen remember that in the heyday of Jordanian-Syrian relations the King also encouraged joint commercial ventures with the Syrians, much as he now does with Iraq. The subsequent chill in relations between Jordan and Syria left many of the ventures languishing. Some entrepreneurs no doubt fear they will suffer the same fate in their newly established trading relationship with Iraq. [redacted] 25X1

The rapidly growing pool of highly educated young people with disappointed expectations constitutes a potential challenge to the King's continued one-man rule. Many were educated in Western schools, are well acquainted with the workings of democratic societies, and conceivably could challenge Hussein's monopoly of power. In our view, it is unlikely that they would attempt to unseat Hussein; rather, they would press him to delegate substantial authority to popular representatives. In the absence of lucrative jobs in the private sector, Hussein may try to co-opt some of these young people by creating well-paid positions in the government—giving them a vested interest in its survival but draining government coffers of funds that could be used more efficiently elsewhere. [redacted] 25X1 25X1

In other Islamic countries, such as Egypt and Iran, young people have found an outlet for their frustrations in religious fundamentalism. Although fundamentalist sentiment is increasing in the universities—most visibly in the number of veiled women—we do not believe that a violent, fundamentalist reaction to harder times will be a major source of domestic unrest in response to current problems. The Muslim Brotherhood is active, but it [redacted] is permitted to operate only because it does not meddle in domestic politics. [redacted] 25X1 25X1 25X1 25X1

The Army, Hussein's most important source of support, has thus far been able to maintain its salary and benefit levels, although supplies are scarce, [redacted] We believe Hussein, mindful that the impact of inflation on military pay was partly responsible for a brief Army uprising in 1974, will be careful to shield the military as much as possible from the effects of the downturn. [redacted] 25X1 25X1 25X1 25X1

[redacted] 25X1

We do not believe that businessmen or other groups hurt by the economic slowdown are ready to assume the considerable risks of mounting a determined challenge to the King. Grumbling about economic conditions may be outweighed by the popular perception that the current system allows most people's children fair access to education and job opportunities. We agree with the US Embassy's assessment that only when avenues to a better life are firmly closed will socially and economically deprived Jordanians risk the political stability they have enjoyed since 1970. Although the economic outlook for the next several years is worsening, we believe that Jordanians on balance consider that opportunities are allocated in a reasonably equitable fashion. 25X1

Hussein is a cautious politician who would prefer to avoid domestic grumbling. As the government's budget and economic policies increasingly become the battleground for various interest groups seeking to protect themselves from harder times, Hussein will probably allow an increase in the scope of public debate over economic policy alternatives, so long as his monopoly on power is not questioned. We believe his response to the economic situation will consist mainly of short-term palliatives that alleviate the most immediate and painful effects of the slowdown at the expense of long-term economic growth. A case in point is the 1983 budget, which cuts investment in order to sustain food and other subsidies. He will avoid painful and unpopular measures to conserve foreign exchange such as a sharp devaluation of the dinar or cuts in food subsidies, at the cost of increasing external debt and declining investment. He will also be forced to reduce his hopes for major new purchases of modern weaponry. 25X1

Hussein will continue to extend assistance to domestic businessmen severely hurt by the slowdown in Iraqi payments and extend loans as necessary to tide them over. He will also probably tone down his vocal encouragement of Jordanian trading relationships with Iraq. 25X1

Implications for the United States

Jordan's dimming economic prospects mean that Hussein cannot afford to antagonize his major financial backers and will not make political moves that run a strong risk of entailing a further decline in their financial aid and political support to his regime. He will want Gulf Arab backing before joining any peace negotiations with Israel. 25X1

Hussein has always regarded financial assistance as a sign of political support, and, in the event that he may yet agree to join the US peace initiative, he will expect a major increase in US and other Western economic assistance. 25X1

If negotiations over the West Bank were opened, we believe Hussein would bow to longstanding East Bank jealousies of the Palestinians and avoid arrangements that would impose economic burdens on the East Bank—such as agreeing to support West Bank industrial development.[3] He would also want to limit the Palestinian political role to preserve the monarchy. 25X1

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